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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)
MAUI ELECTRIC COMPANY, LIMITED) DOCKET NO. 2006-0387
For approval of Rate Increases and)
Revised Rate Schedules and Rules)

PUBLIC UTILITIES
COMMISSION

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FILED

MOTION FOR APPROVAL OF TEST PERIOD WAIVER

AFFIDAVIT OF EDWARD L. REINHARDT

AFFIDAVIT OF DEAN K. MATSUURA

and

CERTIFICATE OF SERVICE

Edward L. Reinhardt
President
Maui Electric Company, Limited
P. O. Box 398
Kahului, Hawaii 96733-6898

Telephone: (808) 871-2300

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MAUI ELECTRIC COMPANY, LIMITED)	DOCKET NO. 2006-0387
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MOTION FOR APPROVAL OF TEST PERIOD WAIVER

MAUI ELECTRIC COMPANY, LIMITED (“MECO” or “Company”) respectfully moves the Commission to allow it to use a calendar year 2007 test period in support of its application for a general rate increase to be filed with the Commission on or after January 1, 2007 (but before June 30, 2007). MECO files this motion pursuant to Sections 6-61-41 and 6-61-92 of the Commission’s Rules of Practice and Procedure, Title 6, Chapter 61 of the Hawaii Administrative Rules (“HAR”). As discussed below, the Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs (“Consumer Advocate”) does not object to this motion.

I.

MECO, whose executive offices are located at 210 West Kamehameha Avenue, Kahului, Maui, Hawaii, is a corporation duly organized under the laws of the Territory of Hawaii on or about April 28, 1921, and is now existing under and by virtue of the laws of the State of Hawaii. MECO is an operating public utility engaged in the production, purchase, transmission,

distribution and sale of electric energy on the islands of Maui, the production, transmission, distribution, and sale of electricity on the island of Molokai, and the production, distribution, and sale of electricity on the island of Lanai.

II.

Correspondence and communications regarding this motion should be addressed to:

Edward L. Reinhardt
President
Maui Electric Company, Limited
P. O. Box 398
Kahului, Hawaii 96733-6898

Copies of all communications should also be sent to:

Dean K. Matsuura
Director, Regulatory Affairs
Hawaiian Electric Company, Inc.
P.O. Box 2750
Honolulu, Hawaii 96840

and

Peter Y. Kikuta, Esq.
Goodsill Anderson Quinn & Stifel
1800 Alii Place
1099 Alakea Street
Honolulu, Hawaii 96813

III.

On September 22, 2006, MECO filed a notice of intent to file an application for a general rate increase based on a 2007 calendar test year period on or after December 1, 2006, pursuant to HAR 6-61-85. The notice states that MECO's request for rate relief is

expected to be based on factors such as increases in operations and maintenance expenses and additional investments in plant and equipment that are required to ensure system reliability and to meet expected load.

IV.

Request for Waiver

Because of the circumstances hereinafter set forth, MECO requests a waiver of HAR 6-61-87(4) in order to file a general rate increase on or after January 1, 2007 (but before June 30, 2007) using a 2007 calendar year test period. HAR 6-61-87(4) states the following:

...The test year shall be a forward test year, determined as follows:

- (A) If an application is filed within the first six months of any year, the test year shall be from July 1 of the same year through June 30 of the following year; or
- (B) If an application is filed within the last six months of any year, the test year shall be from January 1 through December 31 of the following year;...

Without a waiver of this section, the test year for an application filed in the first six months of 2007 would be a "split-test year" of July 1, 2007 through June 30, 2008. HAR 6-61-92 enables the Commission to modify any of the requirements of Subchapter 8 of Title 6, Chapter 61 of the HAR if the requirements would "impose a financial hardship on the applicant or be unjust or unreasonable."

MECO intends to file its general rate increase application in early 2007 (using a 2007 calendar year test period), in order to permit rate relief to be authorized as soon as possible in 2007 or early 2008, while still providing the Commission and the parties with the

time required to adequately review MECO's application and supporting information. Failure to grant the requested waiver would impose a financial hardship on MECO, and would be unjust or unreasonable. See Affidavit of Edward L. Reinhardt ("Reinhardt Affidavit") at 1, which is attached hereto. The use of a 2007 test year is justified for the following reasons:

First, MECO's budgeting, forecasting and financial reporting processes are based on a calendar year. Use of a split test year would cause MECO to incur significantly higher expenses and resource commitments to develop and compile demand forecasts, financial projections and results based on a split test year, and complicate analysis and evaluation of MECO's case by other parties. Using a calendar 2007 test year will facilitate presentation and analysis of the test year estimates, particularly since MECO has not filed a rate case application since 1998, and should help avoid unnecessary controversy and potential delay in concluding this case. Reinhardt Affidavit at 1.

Second, under current circumstances, it will be difficult, if not impossible for MECO to earn its allowed rate of return in 2008 without rate relief prior to or near the beginning of that year.¹ This is due in large part to the Maalaea Power Plant Unit 18 going into service in October 2006 at an investment of over \$60 million. MECO's preliminary estimates of its total plant additions through 2006 since its 1999 test year rate case (Docket No. 97-0346) total almost \$247.3 million. MECO's average depreciated rate base in that rate case was \$310 million and has increased to \$325 million as of June 30, 2006. In addition, higher operation and maintenance expenses and depreciation expenses, net of

additional revenues due to sales increases, are contributing to MECO's increased annual revenue requirements in the test year. (For example, depreciation expenses for the twelve months ended September 30, 2006 were \$25.4 million, versus \$18.8 million for the 1999 test year.) Without the requested waiver, MECO would either have to incur the financial and resource burdens of managing a split test year or delay its application for needed rate relief. In either case, the outcome would be financial hardship for MECO.² Reinhardt Affidavit at 1.

As stated in its Notice of Intent, filed on September 22, 2006, MECO had originally intended to file its application on or after December 1, 2006. It did not seek a waiver of the test year requirement at that time because it intended to file its application before the end of 2006. However, imminent changes to the procedural schedule for Hawaii Electric Light Company, Inc.'s ("HELCO") 2006 test year rate case in Docket No. 05-0315 and other factors such as the initiation of Docket No. 2006-0431 (Earthquake Outage Proceeding) caused an extension in the scheduled filing date of Hawaiian Electric Company, Inc.'s ("HECO") application for a general rate increase from November to December 2006. Because the filing of two rate cases in the same month would cause a tremendous strain on the resources of the Commission, the Consumer Advocate and MECO, the Company decided to extend the scheduled filing date of the MECO application for general rate

¹ As shown on MECO's Rate of Return on Rate Base and Common Equity Reports filed with the Commission, MECO's ratemaking simple average return on rate base for the 12 months ended June 30, 2006 was 7.91%. MECO's current authorized rate of return on average rate base is 8.83%.

² Generally, MECO would prefer to use a forward-looking calendar year test period for its rate cases. However, given the circumstances described above, utilizing an "historic" test period is reasonable.

increase from December 2006 into the first half of 2007. MECO anticipates that it will file its application in February 2007.

The Company has discussed the above plan with the Consumer Advocate.

The Company has proposed to and received agreement on the following:

- Since there will not be adequate time to “fold in” 2006 recorded results into its direct testimonies, exhibits and workpapers in time for a February 2007 filing, the Company will reflect 2006 estimates in its rate case filing, as it would have had it filed its application in December 2006.
- The beginning of test year plant balance used to calculate MECO’s test year average rate base will be based on 2006 end of year estimates.
- MECO’s rate case reports filed as MECO-WP-101 will reflect 2006 budget numbers.
- The variance analyses to be submitted by MECO’s witnesses will be based on a comparison of 2005 actuals and 2007 budget for operations and maintenance expenses with differences greater than or equal to \$45,000 and 10%.
- In the April 2007 time frame, MECO will update MECO-WP-101 to reflect 2006 recorded results and update its variance analyses to compare 2006 actuals and 2007 test year budget operations and maintenance expenses with differences greater than or equal to \$45,000 and 10%.

The Consumer Advocate does not object to approval of this motion. See Affidavit of Dean K. Matsuura at 2. Further, the Commission has previously granted motions for waiver of the test year requirement in HAR 6-61-87(4). For example, Order

No. 22212 in Docket No. 05-0315 approved HELCO's motion to allow it to use a 2006 calendar test year period for an application for a general rate increase which it intended to file after March 15, 2006 but before June 30, 2006. Order No. 13656 in Docket No. 94-0298 approved GTE Hawaiian Telephone Company Incorporated's ("GTE") motion to use a calendar year 1995 test year for a rate increase application that it intended to file in the first six months of 1995. Similarly, in Order No. 12161 in Docket No. 7579, the Commission approved GTE's use of a 1993 calendar test year for a rate increase application which was to be filed during the first six months of 1993.

V.

MECO respectfully requests an expedited decision on this Motion for Approval of Test Period Waiver since the Commission's decision could have a significant impact on the content and time frame of the Company's filing. MECO does not request a hearing on this motion.

VI.

Pursuant to HAR 6-61-41(b), the factual matters referred to in this motion are supported by the Affidavit of Edward L. Reinhardt and the Affidavit of Dean K. Matsuura, which are attached hereto and made a part hereof.

WHEREFORE, MECO respectfully requests the Commission to approve this Motion for Approval of Test Period Waiver and allow MECO to use a 2007 calendar year test period for the rate increase application it intends to file on or after January 1, 2007 (but before June 30, 2007).

DATED: Kahului, Maui, Hawaii, December 19, 2006

MAUI ELECTRIC COMPANY, LIMITED

By Edward L. Reinhardt
Edward L. Reinhardt
President

AFFIDAVIT OF EDWARD L. REINHARDT

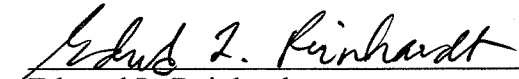
STATE OF HAWAII)
) SS.
COUNTY OF MAUI)

Edward L. Reinhardt, being first duly sworn on oath, deposes and says
that:

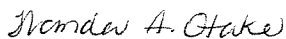
1. He is the President of Maui Electric Company, Limited
("MECO").
2. This affidavit is made in support of MECO's Motion for Approval
of Test Period Waiver.
3. MECO intends to file its general rate increase application based on
a 2007 calendar year test period on or after January 1, 2007 (but before June 30, 2007), in
order to permit rate relief to be authorized as soon as possible in 2007 or early 2008. Not
receiving approval of the requested waiver would impose financial hardship on MECO,
and would be unjust or unreasonable.
4. MECO's budgeting, forecasting and financial reporting processes
are based on a calendar year. Use of a split test year will cause MECO to incur
significantly higher expenses and resource commitments to develop and compile demand
forecasts, financial projections and results based on a split test year, and complicate
analysis and evaluation of MECO's case by other parties. Using a calendar 2007 test
year will facilitate presentation and analysis of the test year estimates, particularly in
view of the fact that MECO has not filed a rate case application since 1998, and avoid
unnecessary controversy and potential delay in concluding this case.

5. It will be difficult, if not impossible for MECO to earn its allowed rate of return in 2008 without rate relief prior to or near the beginning of that year. This is due in large part to the Maalaea Power Plant Unit 18 going into service in October 2006 at an investment of over \$60 million. MECO's preliminary estimates of its total plant additions through 2006 since its 1999 test year rate case (Docket No. 97-0346) total almost \$247.3 million. MECO's average depreciated rate base in that rate case was \$310 million and has increased to \$325 million as of June 30, 2006. In addition, higher operation and maintenance expenses and depreciation expenses, net of additional revenues due to sales increases, are contributing to MECO's increased annual revenue requirements in the test year. (For example, depreciation expenses for the twelve months ended September 30, 2006 were \$25.4 million, versus \$18.8 million for the 1999 test year.) Without the requested waiver, MECO would either have to incur the financial and resource burdens of managing a split test year or delay its application for needed rate relief. In either case, the outcome would be financial hardship for MECO.

Further Affiant Sayeth Naught.


Edward L. Reinhardt

Subscribed and sworn to before me
this 19th day of December, 2006.



 **Wanda A. Otake**

Notary Public, State of Hawaii

My Commission expires: August 15, 2009

AFFIDAVIT OF DEAN K. MATSUURA

STATE OF HAWAII)
) SS.
CITY AND COUNTY OF HONOLULU)

Dean K. Matsuura, being first duly sworn on oath, deposes and says that:

1. He is the Director-Regulatory Affairs at Hawaiian Electric Company, Inc.
2. This affidavit is made in support of Maui Electric Company, Limited's ("MECO") Motion for Approval of Test Period Waiver.


3. On December 5, 2006, he spoke to Ms. Cheryl Kikuta, Utilities Administrator at the Division of Consumer Advocacy (“Consumer Advocate”), Department of Commerce and Consumer Affairs, and informed her of MECO’s intention to file an application for a general rate increase in February of 2007 instead of December 2006 and of MECO’s desire to file a motion for a waiver of Section 6-61-87(4) of the Hawaii Administrative Rules so that the test period could be the 2007 calendar year instead of a split test year running from July 1, 2007 through June 30, 2008.

4. He proposed the following to Ms. Kikuta:
- Since there will not be adequate time to “fold in” 2006 recorded results into its direct testimonies, exhibits and workpapers in time for a February 2007 filing, the Company will reflect 2006 estimates in its rate case filing, as it would have had it filed its application in December 2006.
 - The beginning of test year plant balance used to calculate MECO’s test year average rate base will be based on 2006 end of year estimates.
 - MECO’s rate case reports filed as MECO-WP-101 will reflect 2006 budget numbers.

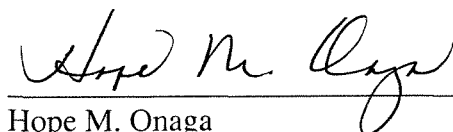
- The variance analyses to be submitted by MECO's witnesses will be based on a comparison of 2005 actuals and 2007 budget for operations and maintenance expenses with differences greater than or equal to \$45,000 and 10%.
- In the April 2007 time frame, MECO will update MECO-WP-101 to reflect 2006 recorded results and update its variance analyses to compare 2006 actuals and 2007 test year budget operations and maintenance expenses with differences greater than or equal to \$45,000 and 10%.

Ms. Kikuta stated that the Consumer Advocate would not object to the aforementioned proposal or to approval of a motion for a waiver of Section 6-61-87(4) of the Hawaii Administrative Rules so that the test period could be the 2007 calendar year instead of a split test year running from July 1, 2007 through June 30, 2008.

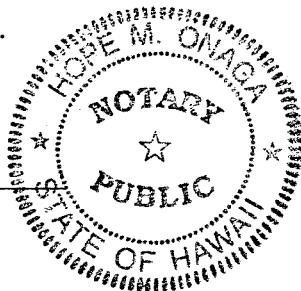
Further Affiant Sayeth Naught.


Dean K. Matsuura

Subscribed and sworn to before me
this 19th day of December, 2006.


Hope M. Onaga

Notary Public, State of Hawaii



My Commission expires: 7/18/2008

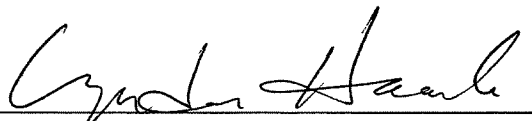
CERTIFICATE OF SERVICE

I hereby certify that I served copies of the foregoing Motion for Approval of Test Period Waiver, Affidavit of Edward L. Reinhardt, Affidavit of Dean K. Matsuura, and this Certificate of Service, by hand delivery or mailing a copy by United States mail, postage prepaid, to the following:

Catherine P. Awakuni
Executive Director
Division of Consumer Advocacy
Department of Commerce and Consumer Affairs
333 Merchant Street, Room 326
Honolulu, Hawaii 96813

The Honorable Alan M. Arakawa
Mayor
County of Maui
200 South High Street
Wailuku, Hawaii 96793

DATED: Honolulu, Hawaii, December 19, 2006


Lyndon Haack

HAWAIIAN ELECTRIC COMPANY, INC.
Regulatory Affairs Division